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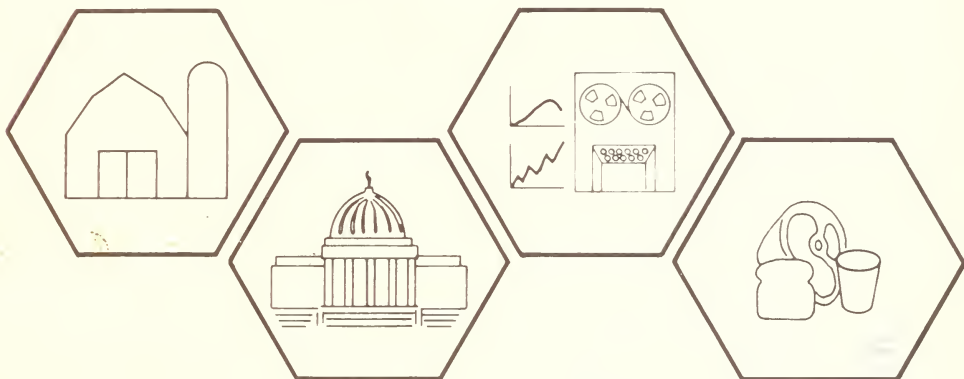
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# IMPACTS OF REVERTING TO BASIC LEGISLATION WHEN THE AGRICULTURE AND CONSUMER PROTECTION ACT OF 1973 AND RICE PRODUCTION ACT OF 1975 EXPIRE

J. B. Penn and W. H. Brown



## ABSTRACT

Provisions in the basic legislation for various commodities (wheat, feed grains, cotton, soybeans, rice, and dairy products) which would be applicable should the 1973 Act and the Rice Production Act of 1975 be allowed to expire are identified. Changes are projected for these commodities relating to production, utilization, and farmers' prices, as well as realized net farm income nationally.

**Keywords:** Agricultural and food policy, commodities, legislation, projections.

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Policy Issue Papers provide analytical or descriptive treatments of topical issues, development of policy and program concepts, and evaluation of program alternatives relevant to agricultural and food policies and programs.

Projections shown in this publication are estimates based on a set of assumptions regarding commodity production and utilization. Projections based on differing assumptions or using a different estimation procedure may vary from these, thus affecting the conclusions drawn.

# **IMPACTS OF REVERTING TO BASIC LEGISLATION WHEN THE AGRICULTURE AND CONSUMER PROTECTION ACT OF 1973 AND RICE PRODUCTION ACT OF 1975 EXPIRE**

by J. B. Penn and W. H. Brown\*

## **PREMISE**

The Agriculture and Consumer Protection Act of 1973 and the Rice Production Act of 1975 expire at the end of the 1977 crop year. Should they not be extended or new legislation not be enacted by the Congress, certain of the present provisions and authorized programs will expire. Others will continue but in changed form as specified under statutory authority of so-called permanent or basic legislation.

This article identifies provisions and programs of the 1973 and 1975 laws which expire and those which revert to permanent legislation. For those reverting, the applicable provisions and program specifications are developed and the impacts on the agricultural economy are analyzed for 1978-80.

A projection of likely economic conditions (baseline) is used in the analysis reported here. The baseline projections, prepared for research purposes, are updated frequently as new information on crop and economic conditions becomes available but are not official outlook projections of USDA. While specific projections may have changed since preparation of the analysis, most implications drawn in the report remain valid. Farm income is, of course, directly subject to changes in price estimates.

## **SUMMARY OF STATUTORY PROVISIONS EFFECTIVE UPON EXPIRATION OF THE 1973 AND 1975 ACTS**

The Agriculture and Consumer Protection Act of 1973, approved August 10, 1973, is applicable to the 1974-77 crop years. This Act amended or extended sections in the Agricultural Adjustment Act of 1938, as amended, and the Agricultural Act of 1949, as amended, that included sections concerned with acreage adjustment, price support methods, and CCC sales policy. The 1973 Act continued authority for the cropland set-aside approach (and acreage diversion) initiated in the Agricultural Act of 1970, substituted acreage allotments for former feed grain base acreages and established a new limit on the amount of payments,

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if any, a person could receive annually under the programs. The 1973 Act initiated an established or “target price” approach for the 1974-77 feed grain, upland cotton<sup>1</sup>, and wheat crops, with deficiency payments as required. It also made provision for payments if producers are prevented from planting any portion of the farm acreage allotment because of disaster conditions, or if there is crop loss because of disaster conditions. The programs are voluntary.

Additionally, the 1973 Act amended or extended sections of the National Wool Act of 1954, the Agricultural Trade Development and Assistance Act of 1954 (PL 480), and the Food Stamp Act of 1964.

The Rice Production Act of 1975, enacted February 1976 and applicable to the 1976-77 crops, instituted a program for rice similar to those for feed grain and wheat. However, loans are available only for a quantity of rice equal to the allotted acres times the established yield for the farm, instead of total production as provided for wheat, feed grains, and upland cotton. Also, payments a person may receive under the rice program are limited to \$55,000 instead of the \$20,000 combined for wheat, feed grains and upland cotton provided under the 1973 Act. Target prices and loans as specified in the Act are to be adjusted for the change in the Index of Production Items, Interest, Taxes, and Wage Rates from the date of passage of the Act of July 31, 1976, for 1976 crop rice; and August through July 1977, for 1977 crop rice. The change may be further adjusted for a change in yields.

If no legislation is enacted to extend or replace the 1973 and 1975 laws, some program authority will revert to existing permanent legislation while other program authority will expire. The status of the individual programs is summarized below and in the following sections.

**Program Authority Reverting to  
Existing Permanent Legislation**

- Wheat
- Feed grains
- Upland cotton
- Rice
- Wool and mohair
- Support price for milk
- Cottonseed—soybean support  
price relationship
- CCC minimum sales prices

**Program Authority Expiring**

- Public Law 480
- Dairy products
- Indemnity payments program
- Class I base plan
- CCC donations to military  
and VA hospitals
- Beekeepers indemnity program
- Cropland conversion program

**COMMODITY PROGRAMS**

**Wheat**

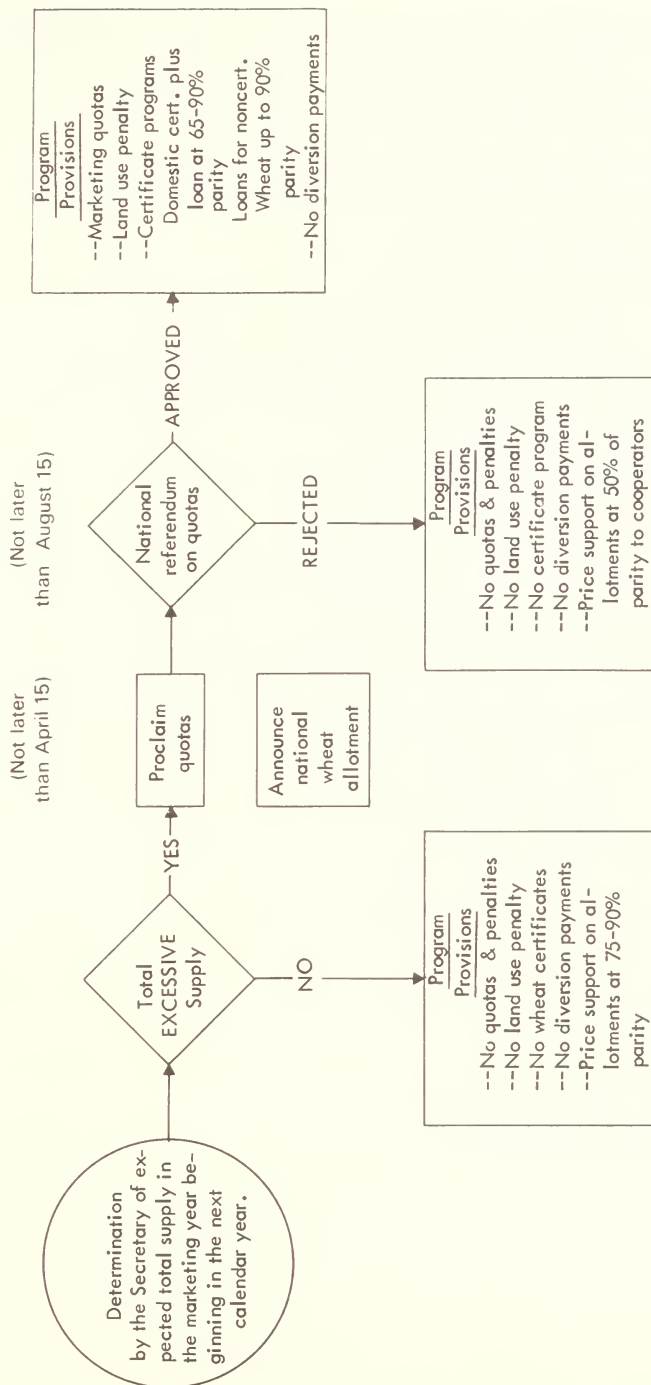
Alternative wheat program provisions under basic legislation are summarized below and in figure 1.

1. The Secretary of Agriculture must proclaim whether marketing quotas will be in effect for a crop year by not later than April 15 of the previous year (that is, by April 15, 1977, for the 1978 crop.)

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<sup>1</sup>Upland cotton is the only type considered in this study, and may be referred to in the text as “upland cotton” or “cotton.”

Figure 1 - OPTIONS FOR WHEAT PROGRAM UNDER BASIC LEGISLATION



- (a) Quotas would be proclaimed if the Secretary determined that in the absence of quotas, the total supply of wheat in the coming marketing year would be excessive.
  - (b) A national wheat allotment must be announced regardless of whether quotas are proclaimed.
2. If marketing quotas are *not* proclaimed, program provisions are:
    - (a) No marketing quotas and no penalties on excess production.
    - (b) No land-use penalty.
    - (c) No wheat certificates.
    - (d) No diversion payments.
    - (e) Price support through loans or purchases is at 75 to 90 percent of parity to producers who comply with their allotment.
  3. If marketing quotas *are* proclaimed, a national referendum of wheat farmers must be held by not later than August 1 of the year prior to the marketing year to which quotas will apply.
  4. If marketing quotas are *approved* by two-thirds or more of the farmers voting in a referendum, program provisions are:
    - (a) Marketing quotas are in effect.
    - (b) A land-use penalty for failure to make mandatory diversion is applicable. Diversion is mandatory if allotment is less than 59.3 million acres.
    - (c) A wheat marketing certificate program is in effect.
      - (1) Loan level on wheat accompanied by domestic certificates will not be less than 65 percent or more than 90 percent of parity.
      - (2) Loans for noncertificate wheat and wheat accompanied by export certificates are to be set at a level not in excess of 90 percent of parity, considering world market prices and feed value relationship to feed grains.
      - (3) Domestic certificate value equals the difference between price support on wheat accompanied by domestic certificates and wheat not accompanied by certificates.
      - (4) Variable export certificates are required of exporters with net proceeds payable to cooperators.
      - (5) Processors are required to pay full value of domestic certificates.
    - (d) No diversion payments.
  5. If marketing quotas are *disapproved* in referendum, program provisions are:
    - (a) No marketing quotas and no penalties for excess production.
    - (b) No land-use penalty.
    - (c) No wheat certificates.
    - (d) No diversion payments.
    - (e) Price support through loans and purchases at 50 percent of parity to producers who comply with their allotments.
  6. No authority to substitute wheat for feed grains under any of the foregoing alternatives.

### Feed Grains

1. No diversion or price support payments.
2. Price support for corn through nonrecourse loans or purchases at a level not less than 50 percent or more than 90 percent of parity as the Secretary

determines will not result in increasing Commodity Credit Corporation (CCC) stocks of corn. Other feed grains are supported at a level which is "fair and reasonable" in relation to the level for corn.

## Upland Cotton

Alternative program provisions for upland cotton are summarized below and in figure 2.

1. The Secretary must proclaim a national marketing quota if he determines that, in the absence of quotas, the total supply would exceed the "normal" supply.
2. If marketing quotas are *not* proclaimed, program provisions are:
  - (a) No marketing quotas and no penalties on excess production.
  - (b) No diversion or price support payments.
  - (c) Price support to cooperators at 65 to 90 percent of parity, as determined by the Secretary, and to noncooperators not to exceed the rate to cooperators. The Secretary can require compliance with allotments for support.
3. If marketing quotas are *proclaimed* and *approved* by two-thirds or more of the farmers voting in a referendum, program provisions are:
  - (a) Marketing quotas and acreage allotments (minimum allotment of 16 million acres.)
  - (b) No diversion or price support payments.
  - (c) Price support to producers who comply with their allotments through loans or purchases at not less than 65 percent or more than 90 percent of parity, as determined by the Secretary.
4. If marketing quotas are *disapproved* in referendum, program provisions are:
  - (a) No marketing quotas and no penalties on excess production.
  - (b) No diversion or price support payments.
  - (c) Price support through loans or purchases to producers who comply with their allotments at 50 percent of parity.
5. No authority to sell, lease, or transfer cotton allotments.

## Rice

Alternative program provisions for rice are summarized below and in figure 3.

1. Each year the Secretary is required to announce a national acreage allotment which will produce enough rice, along with the carryin stocks from the preceding crop, to have a supply adequate to meet estimated domestic consumption, exports, and an adequate carryover. The national minimum acreage allotment is 1,652,596 acres.
2. The Secretary must declare marketing quotas if total supply exceeds "normal" supply. The total supply of rice for any marketing year is the carryover of rice for such marketing year, plus the estimated production during the calendar year in which such marketing year begins, and the estimated imports of the commodity during such marketing year. Normal supply of rice is the estimated domestic consumption for the preceding marketing year plus the estimated exports for the marketing year for which the normal supply is being determined, plus a 10-percent allowance for carryover.

Figure 2 - OPTIONS FOR UPLAND COTTON UNDER BASIC LEGISLATION

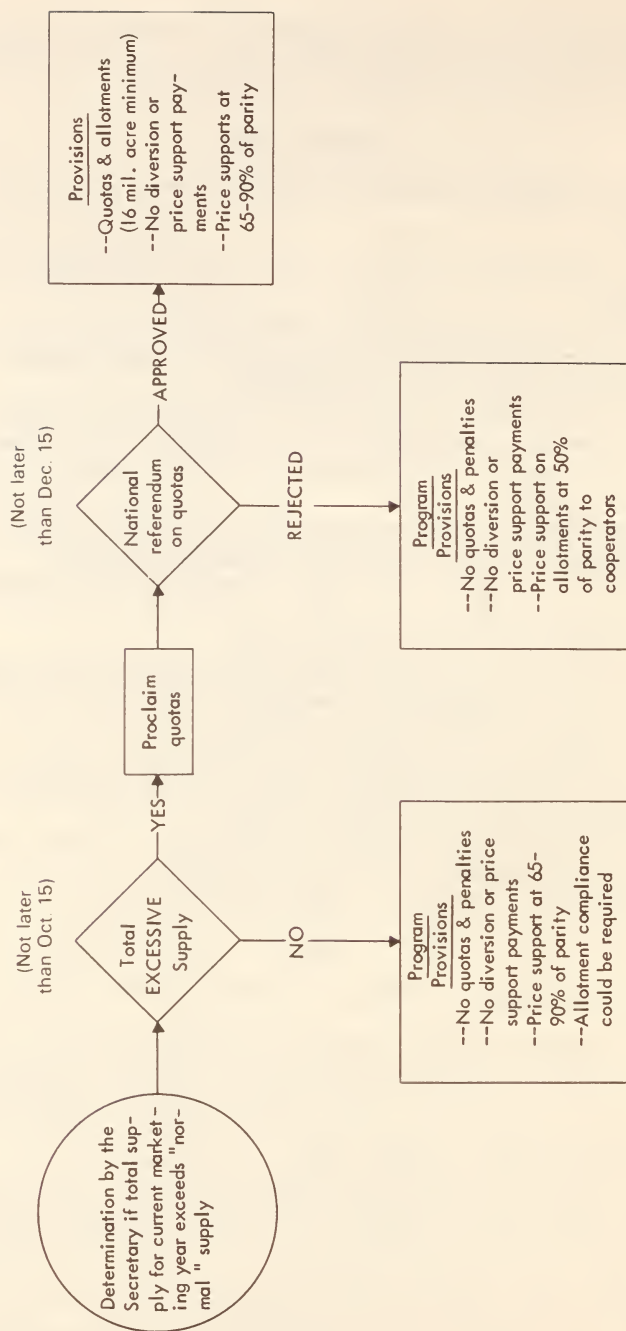
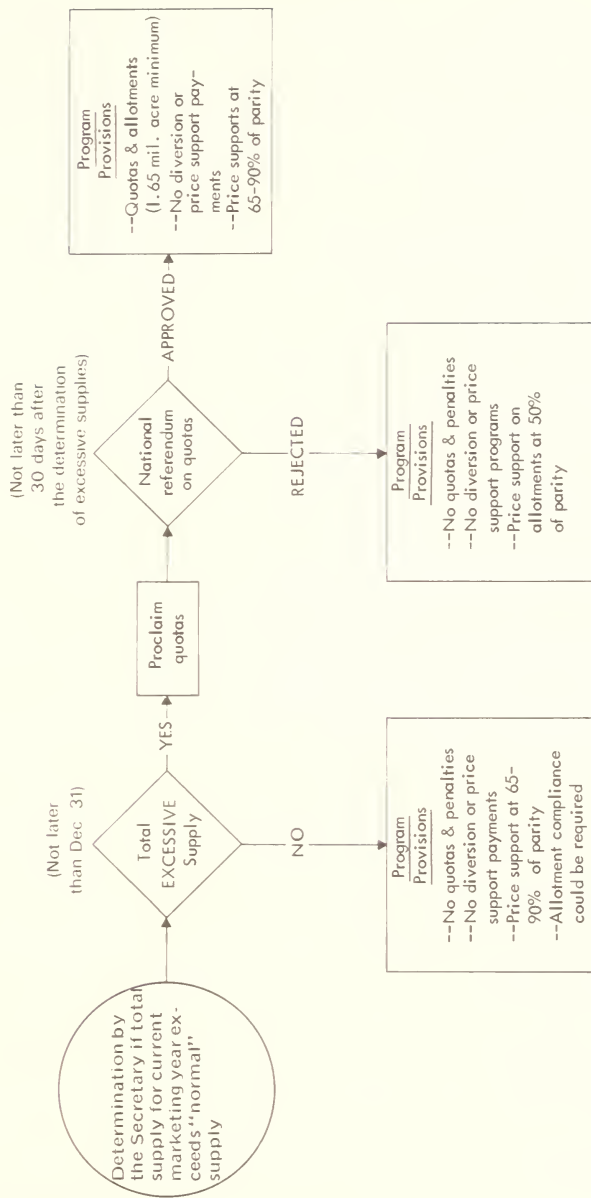


Figure 3 OPTIONS FOR RICE PROGRAM UNDER BASIC LEGISLATION



3. If marketing quotas are approved by two-thirds or more of the producers, marketing quota penalties will be in effect and rice prices supported by non-recourse loans at 65 to 90 percent of parity.
4. If marketing quotas are rejected, the price of rice is supported by loans at 50 percent of parity. Producers must plant within allotments to be eligible for loans.
5. If marketing quotas are not declared, price is supported at 65 to 90 percent of parity, but producers must plant within their allotment to be eligible for support. New producers may grow rice but cannot establish history and are not eligible for support loans.
6. The following provisions of the present program are not included in the basic legislation:
  - a. Substitution of crops other than peanuts, tobacco, and extra-long-staple cotton for rice.
  - b. Provisions for set-aside and diversion payments.
  - c. Research funds for rice.
  - d. Target prices and potential deficiency payments.
  - e. Disaster payments.
  - f. Sale or lease of allotments.
  - g. Payment limitation of \$55,000 for rice.

### **Wool and Mohair**

1. No authority to make price support payments for wool and mohair marketed after December 31, 1977.
2. Price support through loans or purchases discretionary with the Secretary at not more than 90 percent of parity.

### **Dairy Products**

1. Support for milk butterfat was mandatory at 75 to 90 percent of parity under the Agricultural Act of 1949. (The mandatory support on butterfat was temporarily suspended by the 1970 Act and permanently repealed by the 1973 Act.) The currently applicable provision which became operative after March 31, 1975, is consistent with the basic authority contained in the 1949 Act.
2. No indemnity payments to dairy farmers and manufacturers of dairy products after June 30, 1977.
3. No Class I base plans after December 31, 1977, except for Class I base plans issued prior to that date which could continue in effect until December 31, 1980.
4. No authority to donate CCC-owned dairy products to military and VA hospitals after December 31, 1977.

### **Public Law 480**

1. No new agreements under Title I and no programs of assistance under Title II after December 31, 1977.

### **Miscellaneous**

1. *CCC Minimum Sales Price*
  - (a) After July 31, 1978, the CCC minimum sales price for upland cotton

for unrestricted use will be 105 percent of the current loan rate plus carrying charges.

- (b) After the marketing year for the 1977 crops, the CCC minimum sales price for wheat, feed grains, and other commodities will generally be 115 percent of the current loan rate for the commodity plus reasonable carrying charges. If a wheat marketing allocation program is in effect, the current support price is defined as the support price accompanied by a marketing certificate.
  - (c) Whenever the Secretary determines that the carryover (at the end of any marketing year) of a price-supported commodity for which a voluntary adjustment program is in effect will be less than 25 percent (35 percent for wheat) of the estimated export and domestic consumption during such marketing year, the CCC may not sell any of its stocks for unrestricted use at less than 115 percent (120 percent for wheat whenever its carryover will be less than 25 percent of such estimated exports and domestic consumption) of the current price support loan plus reasonable carrying charges.
2. *Beekeepers indemnification program*—no program authority after December 31, 1977.
  3. *Cropland conversion program*—no authority for new long-term agreements with farmers or States and local agencies ("Greenspan") after December 31, 1977.
  4. *Cottonseed-soybean support price relationship*—if either cottonseeds or soybeans are supported, then the Secretary is required to support the price of the other at a level he determines "will cause them to compete on equal terms on the market." (This provision was suspended by the 1973 Act.)

## IMPACTS ON THE AGRICULTURAL SECTOR OF REVERTING TO PERMANENT LEGISLATION

The programs as provided in the basic legislation are analyzed as to impacts on the major crop and dairy sectors. Where alternative program specifications are possible, contingent upon discretionary action by the Secretary and/or the results of producer referendums, the possible options are examined. As a comparative reference base for the analysis, a projection of a likely economic situation for 1976-80 is used.<sup>2</sup> The baseline situation assumes a continuation of the present legislation through 1980, favorable weather as reflected in trend annual yield increases per acre, continued strength in export sales, and continued strength in the domestic economy. Components of the 1976-80 baseline are shown in appendix tables 1-5 for the major crop commodities analyzed.

### Feed Grains

Projected supply and utilization of feed grains with continuation of the 1973 Act (baseline) show a moderate increase in both production and utilization (ap-

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<sup>2</sup>This baseline situation for crops was developed in *April 1976* by the Interagency Estimates Committees, USDA, and is revised frequently as new information becomes available. While the baseline estimates have changed since the analysis was completed, the implications drawn in the analysis remain valid.

pendix table 1). Ending stocks reach a peak of nearly 40 million tons at the end of the 1977/78 crop year and then decline to 35 million tons by the end of 1980/81 crop year. The farm level price of corn would be from \$1.80 to \$2.00 per bushel.

Under basic legislation, feed grain prices would be supported at 50 percent of parity. Since projected prices of corn during the 3 crop years following expiration of the present Act are about the same as the loan with the basic feed grain legislation (table 1), reversion to this legislation would have little influence on production and utilization of feed grains, assuming all loan rates are adjusted proportionally. Any change in feed grain production and utilization would depend upon the response of wheat producers to the change. If wheat producers were to accept quotas, about 7 million acres would be available for other crops. In that case, harvested acreage of feed grain would be increased about 3 million acres per year in 1978-80 (table 2). This would result in increased feed grain pro-

Table 1—Projected parity and market prices for corn, wheat, cotton, and soybeans, 1978-80

Item	Unit	1978	1978	1980
<b>Corn:</b>				
Parity .....	Dol./bu.	3.61	3.78	3.96
90% of parity .....	do.	3.25	3.40	3.56
65% of parity .....	do.	2.35	2.46	2.57
50% of parity .....	do.	1.80	1.89	1.98
Market price with present program .....	do.	1.80	1.85	2.00
Market price as a percent of parity .....	Pct.	50	49	51
<b>Wheat:</b>				
Parity .....	Dol./bu.	5.20	5.40	5.60
90% of parity .....	do.	4.68	4.86	5.04
75% of parity .....	do.	3.90	4.05	4.20
65% of parity .....	do.	3.38	3.51	3.64
50% of parity .....	do.	2.60	2.70	2.80
Market price with present program .....	do.	2.45	2.35	2.30
Market price as a percent of parity .....	Pct.	47	44	41
<b>Cotton:<sup>1</sup></b>				
<b>Soybeans:</b>				
Parity .....	Dol./bu.	7.73	8.10	8.56
Market price with present program .....	do.	4.35	4.25	4.60
Market price as a percent of parity .....	Pct.	56	52	54
<b>Rice:</b>				
Parity .....	Dol./cwt.	14.37	14.93	15.47
90% of parity .....	do.	12.93	13.44	13.92
65% of parity .....	do.	9.34	9.70	10.06
50% of parity .....	do.	7.18	7.46	7.74
Market price with present program .....	do.	7.25	8.25	8.75
Market price as a percent of parity .....	Pct.	50	55	57

<sup>1</sup> Current law prohibits cotton price forecasts by the Government.

Table 2—Projected acreage, production, utilization, stocks, and prices with reversion to basic legislation, 1978-80

Item	Unit	Continuation of present programs			Reversion to basic legislation					
					Wheat quotas rejected			Wheat quotas accepted		
		1978	1979	1980	1978	1979	1980	1978	1979	1980
Harvested acreage:										
Feed grain .....	Mil. acres	102.7	104.4	104.9	104.4	105.9	106.2	<sup>1</sup> 106.2	<sup>1</sup> 107.4	<sup>1</sup> 107.4
Wheat .....	do.	68.2	66.4	65.5	63.8	62.8	62.4	<sup>1</sup> 59.3	<sup>1</sup> 59.3	<sup>1</sup> 59.3
Soybeans .....	do.	54.0	55.0	55.0	55.0	55.8	55.8	55.8	56.5	56.5
Cotton .....	do.	11.4	10.8	11.2	11.6	11.6	11.6	11.6	11.6	11.6
Production										
Feed grains .....	Mil. tons	224.0	231.0	235.7	226.5	233.0	237.8	229.4	235.2	239.5
Wheat .....	Mil. bu.	2,191	2,172	2,188	2,030	2,035	2,109	1,939	1,981	2,026
Soybeans .....	do.	1,540	1,580	1,595	1,565	1,604	1,618	1,590	1,624	1,638
Cotton <sup>2</sup> .....										
Utilization <sup>3</sup>										
Feed grains .....	Mil. tons	224.5	232.8	239.3	225.3	233.6	240.1	226.1	234.4	240.9
Wheat .....	Mil. bu.	2,052	2,107	2,162	2,022	1,986	1,926	2,022	1,986	1,926
Soybeans .....	do.	1,515	1,550	1,595	1,535	1,570	1,612	1,556	1,586	1,630
Cotton .....										
Exports <sup>3</sup>										
Feed grains .....	Mil. tons	49.8	53.5	56.4	50.3	54.1	56.9	50.8	54.8	57.4
Wheat .....	Mil. bu.	1,250	1,275	1,300	1,220	1,210	1,153	1,220	1,210	1,153
Soybeans .....	do.	570	590	610	583	602	622	596	613	632
Cotton .....										
Ending stocks:										
Feed grains .....	Mil. tons	39.5	38.0	34.7	40.9	40.3	36.0	43.0	43.8	42.4
Wheat .....	Mil. bu.	1,132	1,199	1,226	1,001	1,051	1,235	910	906	1,007
Soybeans .....	do.	205	235	235	210	244	250	214	252	260
Cotton .....										
Prices received:										
Corn .....	Dol./bu.	1.80	1.85	2.00	1.75	1.82	1.95	<sup>4</sup> 1.70	1.80	1.90
Wheat .....	do.	2.45	2.35	2.30	2.70	2.70	2.77	<sup>4</sup> 2.80	<sup>4</sup> 2.80	<sup>4</sup> 2.85
Soybeans .....	do.	4.35	4.25	4.60	4.20	4.10	4.45	4.05	4.00	4.35

<sup>1</sup> Acreage set at this (minimum) level to reduce stocks. <sup>2</sup> Current law prohibits cotton production forecasts by the Government. <sup>3</sup> Domestic use (not shown separately) would be the difference between utilization

and exports. Export estimates shown are included in the utilization total. <sup>4</sup> Excludes certificate payments.

duction, utilization, and stocks. If prices received should be above loan they would drop to loan level. By 1980 ending stocks could increase by roughly 7 million tons more than would be the case were present programs to continue.

If wheat farmers were to reject quotas and continue wheat production, generally foregoing the chance to put wheat under loan, feed grains would not be affected by reversion to basic legislation. But if wheat farmers were generally to cut back acreage to allotments in order to be eligible for a loan, then feed grains could be affected nearly as much as if wheat quotas had been accepted. In this analysis we have assumed that feed grain production and stocks would have increased half as much with quotas rejected as with quotas accepted. That is, even though wheat quotas were rejected, some farmers would have reduced their acreage to the allotment to be eligible for loan, while other farmers would have planted without consideration of allotment or loan.

*Should production be higher and/or demand lower than projected, there could be some stock accumulation and increased Treasury outlays even without any shift from wheat to feed grains.* This stock accumulation could be either temporary or long term.

## Wheat

Projections of supply, utilization, and prices through 1980 with the continuation of the present program (appendix table 2) indicate: (1) production would be slightly higher than in 1975/76, (2) total disappearance would increase slightly, but would total less than production, (3) supply would increase with ending stocks accumulating to over 1.2 billion bushels at the end of the 1980/81 crop year, and (4) the farm price would decline in 1980/81 to \$2.30 per bushel or less than the loan with quotas rejected under basic legislation (50 percent of parity) (table 1).

Unless wheat production were to be less or utilization greater than the indicated projections, expected supply would probably be excessive, and the Secretary would proclaim marketing quotas and allotments. Wheat farmers rejected marketing quotas for the 1964 crop and might reject them again. However, with no quotas, wheat prices are supported at 50 percent of parity. The low-income prospects could induce farmers to accept quotas if the level of support offered with quotas were to be relatively high. The income advantage of accepting quotas cannot be precisely estimated because the support level for both domestic and export wheat is specified as a range. Support for domestic wheat can be set from 65 to 90 percent of parity and for wheat for export from 0 to 90 percent of parity, both at the discretion of the Secretary. The estimates of realized net farm income if farmers accept quotas (shown in table 3) assume that domestic wheat would be supported at 90 percent of parity and nondomestic wheat at 50 percent of parity.

### Quotas Rejected

If wheat producers generally were not to expect wheat prices to drop below loan and were to instead plant in response to market price in the previous year, reversion to basic legislation would have little effect on production, utilization, carryover, and price of wheat (table 2). This response would be most likely to occur in 1978 and 1979. But if farmers generally were to expect wheat prices to drop below loan and correspondingly would reduce acreage to the allotment, the

**Table 3—Net farm income projections under continuation of present programs and return to basic legislation, 1974-80**

Year	Continuation of 1973 Act	Reversion to basic legislation	
		Wheat quotas rejected	Wheat quotas accepted
	Billion dollars		
1974 .....	27.7		
1975 .....	22.7		
1976 .....	22.0		
1977 .....	22.8		
1978 .....	24.1	24.1	26.0
1979 .....	26.0	26.2	28.6
1980 .....	27.5	27.6	28.2

effect of reversion to basic legislation would be to reduce production, utilization, and stocks to levels similar to those with quotas in effect. This response would be most likely to occur in 1980 if stocks had been accumulating in previous years.

Assuming a reduction in harvested acreage halfway to the allotment, market price would rise to loan rates and reduce utilization to the level estimated with quotas in effect. Carryover would build slightly more than estimated with present programs. In 1980, ending stocks would amount to 1.2 billion bushels, about the same as with the present program, and 0.2 billion bushels above the estimate with quotas in effect.

### Quotas Accepted

With marketing quotas and allotments, a buildup of stocks could be prevented if wheat acreage planted were to be reduced by about 7 million acres below the 72.0 to 75 million acres per year projected during 1978-80 with current programs continued. Harvested acres would amount to 59.3 million acres (table 2). The law provides for acreage diversion only if the acreage needed to supply projected utilization is less than 59.3 million acres.<sup>3</sup> Since this is not the case, no diversion would be required and acreages of feed grains, soybeans, and cotton could expand, resulting in lower prices received and some buildup in stocks of these crops. If a smaller carryover of wheat were to be desired, the allotment could be set at less than 59.3 million acres. A 10-percent diversion would reduce production nearly 200 million bushels per year.

For the 1980/81 crop year, wheat production would be 160 million bushels below the estimate with continuation of present programs. But utilization would be reduced by 236 million bushels. Ending stocks would be reduced by 219 million bushels.

### Cotton

With continuation of present programs, cotton acreages of 11.5 to 12.2 million acres are projected for the 1978-80 crop years (appendix table 3). Produc-

<sup>3</sup>This is the only provision in the basic legislation for withdrawing land from production for any crop.

tion would be projected to average only slightly lower than utilization, and carryover would decrease.

With reversion to basic legislation we have assumed that marketing quotas would be declared by the Secretary and accepted by cotton farmers. But if production is less and/or utilization larger than projected, marketing quotas might not be declared. If this happened there would be no restraint on production and loan rates would be 65 to 90 percent of parity. The effect on production and ending stocks would depend largely on farmers' response to a higher support level. If there is a production response to the higher support, there could be a buildup in stocks. But if there is no production response, there would be little effect on production, utilization, stocks, and prices with a return to basic legislation.

If quotas were declared, and accepted by farmers, prices would also be supported at 65 to 90 percent of parity. The law provides for a minimum allotment of 16 million acres. This allotment would be about 4 million acres above the projected planted acreage with present programs.

If the loan were to be set at 65 percent of parity, reduced risk and the relatively high loan rate would tend to encourage cotton production, but limited harvesting equipment and ginning capacity, insect problems, and allotments would tend to hold down production. In some States such as California, Louisiana, Arizona, and Mississippi, acreage would be reduced substantially below present levels in order to comply with allotments (table 4). Additionally, uncertainty about how long basic legislation would be in effect might tend to discourage investment in harvesting and ginning equipment.

If the acreage planted in 1974 or allotments (whichever is smaller) were assumed to be the limit on cotton acreage, plantings in 1978-80 would be about

Table 4—Upland cotton acreage harvested in 1974 as a percentage of allotment with return to basic legislation

State	Allotment <sup>1</sup>	Harvested acreage, 1974	Acreage as percent- age of allotment
	1,000 acres	1,000 acres	Percent
Alabama .....	931	585	63
Arizona .....	333	392	118
Arkansas .....	1,340	1,130	84
California .....	742	1,238	167
Florida .....	29	12	41
Georgia .....	810	410	51
Illinois .....	3	1	33
Kentucky .....	7	5	71
Louisiana .....	558	635	114
Mississippi .....	1,532	1,710	112
Missouri .....	360	330	92
Nevada .....	4	2	50
New Mexico .....	173	140	81
North Carolina .....	429	145	34
Oklahoma .....	744	547	74
South Carolina .....	654	292	45
Tennessee .....	531	510	96
Texas .....	6,805	4,400	65
Virginia .....	15	2	13
Total .....	16,000	12,484	78

<sup>1</sup> Allotment in 1976 adjusted to 16 million acre national total.

12.4 million acres. This acreage would be slightly larger than projected with continuation of present programs. However, the reduction in acreage in certain high-yielding States and the increase in lower yielding States would reduce average yields perhaps 25 pounds per acre. Resulting total production would then be nearly the same or slightly less under basic legislation rather than under present programs. Higher prices would tend to reduce utilization so that carry-over would be about the same or lower. On the other hand, if the influence of higher loan rates on acreage and production were to more than offset factors holding down production, there could be a buildup of stocks. If this were to happen, stocks could build up by as much as 2 million bales by 1980.

## Soybeans

Acreage controls or quotas have never been applicable to soybeans, and the only applicable program has been price support through loan operations. Under basic legislation (Title III, Agricultural Act of 1949), the Secretary is authorized to support the price of soybeans (as a nonbasic commodity) at a level not to exceed 90 percent of parity.

Under present legislation, prices in 1978-80 would be projected to range between \$4.25 and \$4.60 per bushel (table 1). The present loan rate (\$2.50) is well below that and, unless prices were to be supported at a much higher loan level, no direct impact on production, utilization, and prices would be expected from the support program.

If wheat quotas were to be rejected, the impact on production, utilization, and price would be small (table 2). Acceptance of quotas by wheat producers, however, would precipitate a more significant impact. The reduced wheat acreage under quotas would permit expanded soybean acreage and production. Utilization would increase slightly, but by less than the production increase. This would result in increased stocks and lower prices of about 15 cents per bushel than with quotas rejected, and 25 to 30 cent lower prices with quotas accepted over the 3 years.

## Rice

With continuation of the present program, projections of supply and utilization indicate that rice production would decrease slightly until 1978 and then increase for 2 or 3 years (appendix table 5). Utilization (mostly exports) would increase gradually over the 1978-80 period. Carryover would remain high until the end of the 1977/78 crop year and then return toward normal. Prices received would also increase somewhat after 1977, as the stock level would decline. At the end of the 1977/78 crop year (when the 1975 Act expires), carryover would exceed normal by a substantial amount—perhaps 35 million cwt.

With a return to basic legislation, the Secretary would be required to declare marketing quotas and farmers would probably accept them. Allotments would have to be maintained at the legal minimum of 1.65 million acres to hold down carryover. Even with allotment at the minimum, there could be some buildup in carryover. Under basic legislation the loan rate for rice would range from about \$9.30 to \$10.00 per cwt. The market price probably would be near loan or about 20 percent above projected prices with the present program. There would be support payments. Higher rice prices would have little effect on domestic food use but higher prices together with the elimination of PL 480 could reduce exports

by more than 50 percent. By 1980 rice utilization could be 35 to 40 percent less than projected with the current programs.

## **Dairy**

### **Dairy Price Support Levels**

The 1973 Act required that manufacturing milk be supported between 80 and 90 percent of parity through March 31, 1975. After that, dairy price supports reverted to the required 75 to 90 percent level provided by the Agricultural Act of 1949, the basic authority for the dairy price support program. Since the current support is governed by the 75 to 90 percent requirement, no additional impact would be expected through 1980.

### **Price Support Requirement for Butterfat**

The 1970 Agricultural Act temporarily suspended the mandatory support on butterfat until March 31, 1974. Subsequently, the 1973 Act permanently repealed the price support requirement for butterfat. Therefore, no impact would result from expiration of the 1973 Act.

### **Class I Base, Seasonal Base, and Louisville Plan Authority**

There would be no Class I base plans after December 31, 1977, except that Class I base plans issued prior to that date could continue in effect until December 31, 1980. Presently there are Class I base plans operating in only 2 Federal orders. The time period provided to phase out these plans would allow changes to be made without serious impact.

Currently, there are seasonal base plans in 8 Federal order markets and there are Louisville-type plans in 11 Federal markets. It is uncertain whether these provisions would expire with the 1973 Act, but presumably they would revert back to the previous general pricing authority.

### **Authority to Transfer Dairy Products Acquired by the CCC to the Military and to the Veterans Administration**

There would be no authority to donate CCC-owned dairy products to military and VA hospitals after June 30, 1977. These used to be important outlets for excess stocks, but CCC stocks of dairy products are now low.

### **Dairy Indemnity Program**

The 1973 Act extended the dairy indemnity program until June 30, 1977. After that date no indemnity payments would be made to dairy farmers and manufacturers of dairy products. From their beginning in 1964 through FY 1975, indemnity payments to dairy farmers and dairy plants totaled about \$1.9 million. Payments totaled \$198,000 in FY 1974 and \$193,000 in FY 1975. While relatively small, the payments have been important to many individual farmers.

## **Public Law 480**

The major provisions of PL 480 are Title I, providing for the sale of agricultural commodities for long term dollar and convertible local currency credit, and Title II, authorizing donations of agricultural commodities for purposes

including famine or other urgent or extraordinary relief, malnutrition, development, and so on. Beginning in 1966, the United States undertook a progressive transition of sales for foreign currencies to long-term dollar credits, reflecting a shift from disposal of surplus commodities to commercial sales. By 1972 the transition was completed.

In FY 1975, agricultural exports under PL 480 programs totaled \$1.1 billion, or 5 percent of total agricultural exports. Seventy percent of this amount was long-term dollar and convertible local currency credit sales and the remainder was donations (there were no sales for foreign currency). Traditionally, wheat was the most important agricultural product under these programs. Other major commodities were feed grains, rice, and oilseeds (PL 480 feed grain exports dropped markedly in fiscal year 1975). While over time these programs provided a significant export outlet, the loss of such exports, with the possible exception of rice, would not be expected to have a significant impact on domestic stock levels or commodity prices.

### **Farm Income**

With the continuation of present programs, realized net farm income is projected to increase from \$24.0 billion in 1978 to \$27.5 billion in 1980 (table 3). This compares with \$27.7 billion in 1974 and \$22.7 billion estimated for 1975. With a return to basic legislation and if wheat farmers were to reject quotas, realized net farm income would be about the same as that expected under current programs. On the other hand, if wheat producers were to accept quotas and domestic wheat were to be supported at 90 percent of parity and nondomestic wheat at 50 percent of parity, realized net farm income in 1978-80 would average about \$1.6 billion higher. However, if prices turn out to be higher than projected, income under current programs could be more nearly equal to income with wheat quotas accepted.

### **Government Expenditures**

It is difficult to estimate Government outlays because CCC holdings have been variable with such carryovers as those projected in this analysis. With either assumption about wheat quotas, CCC net outlays could be increased by \$1 billion or more per year in 1978-80, and gross outlays would be increased much more. If farmers accepted wheat quotas, outlays for wheat would be less than if they rejected them due to less acreage. But lower outlays for wheat would be offset by higher outlays for feed grains. In addition to CCC outlays, wheat certificate payments would amount to about \$1.2 billion per year, with processors required to pay for these certificates.

A complete analysis of all impacts of Government re-entry into the market is beyond the scope of this study. It is recognized that numerous implications of such a move exist.

### **Consumer Prices**

Reversion to basic legislation would have little effect on the overall consumer price index. There would be some change in prices paid for a few consumer items, reflecting price changes at the farm level.

## CONCLUSIONS

Reversion to basic legislation would involve the following:

- \* There would be no restrictions on *feed grain* acreage, and prices would be supported by loan rates of 50 to 90 percent of parity for corn and at comparable rates for other feed grains.
- \* Because of the prospects for higher income, *upland cotton and rice* producers could be expected to accept quotas with prices then supported between 65 and 90 percent of parity.
- \* For *wheat*, total supply probably would exceed normal supply and the Secretary of Agriculture would declare marketing quotas and call a producer referendum. Whether quotas were approved by producers would depend upon specific provisions offered in the alternative with quotas. If domestic wheat (that used for domestic food use) were to be supported at the minimum rate of 65 percent of parity and non-domestic wheat at 50 percent of parity, net farm income to wheat producers would likely average slightly higher than with quotas rejected. A higher support level would probably be necessary to get quotas accepted.

Continuation of present programs through 1980 would probably result in projected corn prices of about 50 percent of parity. Upland cotton acreages would be substantially less than the 16 million acre allotment under a quota declaration. An increase in production and utilization of rice could be expected.

With such price levels for feed grains and with quotas for wheat rejected, much of the effect of reversion to basic legislation on acreage, production, and utilization of feed grains would depend on the number of wheat producers who would reduce wheat acreage to be eligible for loan. If a large proportion of wheat producers were to expect prices to be near or above loan and continued to plant more than the allotment, the effect of reverting to basic legislation would be minimal. But if most wheat farmers were to produce within their allotments to be eligible for loan, as much as 6 to 7 million acres could be shifted from wheat to other crops. This shift could reduce the wheat carryover but increase production and carryover of other crops, mainly feed grains and soybeans. In this analysis we assume that wheat acreage is reduced halfway between that acreage estimated with continuation of present programs and that under allotment.

Reversion to basic legislation would affect wheat substantially more than feed grains. With present programs continued, wheat production would exceed utilization and stocks would increase, lowering projected prices from around 50 percent of parity in 1978 to near 40 percent in 1980. Under the basic legislation, if quotas were to be rejected and with wheat supported at 50 percent of parity, there would probably be a small decrease in acreage and production, increase in prices received, and the average carryover in 1978-80 would be less than under continuation of present programs. This assumes that half the producers would plant within their allotment to be eligible for price support even if quotas were rejected. Wheat acreage and production could be limited to avoid stock buildup if quotas were accepted, but this in turn could lead to a buildup in stocks of feed grains, soybeans, and cotton. Stock increases in the latter two commodities, however, would not be serious.

If wheat farmers were to reject quotas and producers generally do not plant within allotment to be eligible for loan, the acreage, production, utilization, and prices of soybeans would not be significantly affected. However, approval of quotas would decrease wheat acreage, permitting some increase in soybean production and utilization but resulting in slightly lower farm level prices.

*If crop production were to be greater and/or utilization less than projected, with reversion to basic legislation, prices presently projected to be above loan could decline to the new loan level, with stock accumulations greater than projected, entailing increased Government outlays. Conversely, if production were to be less and/or utilization greater than projected, prices would be substantially above loan with little or no stock buildup.*

Reversion to basic rice legislation would result in substantially higher prices, with no support payments and a reduction in utilization, especially exports. Even if allotments are set at the minimum there probably will be a buildup in stocks.

Dairy price support levels for manufacturing milk are currently prescribed within 75 to 90 percent of parity (since March 31, 1975), the same range as specified in the basic legislation. The price support for butterfat was permanently repealed by the 1973 Act. There would be no Class I base plans after December 31, 1977, excepting those authorized prior to that date and those could continue through 1980. There are base plans in only two orders. Overall, the impact on the dairy sector of reversion to basic legislation would be minimal.

Farm income would be substantially affected under basic legislation only if wheat quotas were to be accepted and domestic wheat supported at 90 percent of parity. If so, income would average a projected \$27.6 billion a year during 1978-80, as compared to \$26.0 billion with quotas rejected and \$25.8 billion with present programs continued. If prices received with continuation of present programs are higher than projected this difference could be substantially less. However, under basic legislation the net Treasury cost of CCC operations could be increased \$1 billion or more annually, because of increased loans and acquisitions.

## APPENDIX

Appendix table 1—Feed grains: Acreage, supply, utilization, and prices received, 1974-75 and projections to 1980

Item	Unit	1974	1975	1976	1977	1978	1979	1980
Acreage								
Planted .....	Mil. ac.	122.4	123.1	126.6	122.5	122.2	124.0	124.5
Harvested .....	do.	100.6	104.8	107.0	103.0	102.7	104.4	104.9
Yield harvested acre ..	Tons	1.84	1.93	2.05	2.14	2.18	2.21	2.35
Supply								
Beginning stocks ....	m.t.	22.2	15.8	19.5	34.6	39.7	39.5	38.0
Production .....	do.	165.3	202.4	219.3	220.5	224.0	231.0	235.7
Imports .....	do.	.5	.5	.3	.3	.3	.3	.3
Total .....	do.	188.0	218.7	239.1	255.4	264.0	270.8	274.0
Utilization								
Feed .....	do.	115.0	129.3	143.4	149.3	154.7	158.8	161.9
Food, seed, industrial	do.	18.0	18.5	19.2	19.5	20.0	20.5	21.0
Total domestic .....	do.	133.0	147.8	162.6	168.8	174.7	179.3	182.9
Exports .....	do.	39.2	51.4	41.9	46.9	49.8	53.5	56.4
Total .....	do.	172.2	199.2	204.5	215.7	224.5	232.8	239.3
Ending stocks .....	do.	15.8	19.5	34.6	39.7	39.5	38.0	34.7
Prices received								
Corn .....	Dol.	3.02	2.45	2.00	1.75	1.80	1.85	2.00
Grain sorghum .....	do.	2.78	2.30	1.85	1.60	1.65	1.70	1.85
Barley .....	do.	2.79	2.50	1.90	1.65	1.70	1.70	1.80

Appendix table 2—Wheat: Acreage, supply, utilization, and prices received 1974-75 and projections to 1980

Item	Unit	1974	1975	1976	1977	1978	1979	1980
<b>Acreage</b>								
Planted .....	Mil. acres	71.35	75.10	78.4	77.5	75.0	73.0	72.0
Harvested .....	do.	65.61	69.66	68.6	70.5	68.2	66.4	65.5
Yield/acre .....	Bu.	27.4	30.6	29.2	31.7	32.1	32.7	33.4
<b>Supply</b>								
Beginning stocks .....	Mil. bu.	247.0	327.0	552.0	754.0	992.0	1,132.0	1,199.0
Production .....	do.	1,796.0	2,134.0	2,000.0	2,236.0	2,191.0	2,172.0	2,188.0
Imports .....	do.	2.0	2.0	2.0	1.0	1.0	1.0	1.0
Total .....	do.	2,045.0	2,463.0	2,554.0	2,991.0	3,184.0	3,305.0	3,388.0
<b>Utilization</b>								
Food .....	do.	525.0	535.0	536.0	537.0	538.0	539.0	540.0
Feed residual .....	do.	66.0	85.0	125.0	150.0	180.0	210.0	240.0
Seed .....	do.	88.0	91.0	89.0	86.0	84.0	83.0	82.0
Total domestic .....	do.	679.0	711.0	750.0	773.0	802.0	832.0	862.0
Exports .....	do.	1,039.0	1,200.0	1,050.0	1,225.0	1,250.0	1,275.0	1,300.0
Total disappearance .....	do.	1,718.0	1,911.0	1,800.0	1,998.0	2,052.0	2,107.0	2,162.0
Ending stocks .....	do.	327.0	552.0	754.0	992.0	1,132.0	1,199.0	1,226.0
Prices received .....	Dol.		3.60	3.25	2.90	2.45	2.35	2.30

**Appendix table 3—Upland cotton: Acreage, supply, utilization, and prices received, 1974-75 and projections to 1980**

Item <sup>1</sup>	Unit	1974	1975	1976	1977	1978	1979	1980
Acreage								
Planted . . . . .	Mil. ac.	13.62	9.62	11.20	12.50	12.20	11.50	12.00
Harvested . . . .	do.	12.48	8.99					
Yield/acre . . . .	Lbs.	440	441					
Prices received <sup>1</sup> .	Dol.	.427	.500					

<sup>1</sup> Current law prohibits forecasts of cotton production and price by the Government.

**Appendix table 4—Soybeans: Acreage, supply, utilization, and prices received 1974-75 and projections to 1980**

Item	Unit	1974	1975	1976	1977	1978	1979	1980
Acreage								
Planted . . . . .	Mil. ac.	53.5	54.6	49.3	53.0	55.0	56.0	56.0
Harvested . . . .	do.	52.4	53.6	48.3	52.0	54.0	55.0	55.0
Yield/acre . . . .	Bu.	23.20	28.40	28.00	28.25	28.50	28.75	29.0
Supply								
Beginning stocks	Mil. bu.	171	185	280	190	180	205	235
Production . . .	do.	1,215	1,521	1,350	1,470	1,540	1,580	1,595
Total supply . .	do.	1,386	1,706	1,630	1,660	1,720	1,785	1,830
Utilization								
Domestic . . . . .	do.	780	901	905	930	945	960	985
Exports . . . . .	do.	421	525	535	550	570	590	610
Total . . . . .	do.	1,201	1,426	1,440	1,480	1,515	1,550	1,595
Ending stocks . .	do.	185	280	190	180	205	235	235
Prices received . .	Dol.	6.64	4.63	4.75	4.35	4.35	4.25	4.60

**Appendix table 5—Rice: Acreage, supply, utilization, and prices received, 1974-75 and projections to 1980**

Item	Unit	1974	1975	1976	1977	1978	1979	1980
Acreage								
Planted . . . . .	Mil. ac.	2,555	2,818	2,361	2,300	2,200	2,200	2,500
Harvested . . . .	do.	2,536	2,802	2,340	2,280	2,180	2,180	2,480
Yield/acre . . . .	Lbs.	4,432	4,555	4,640	4,690	4,730	4,770	4,650
Supply								
Beginning stocks	M. cwt.	7.8	7.1	34.2	42.7	44.6	35.7	20.7
Production . . .	do.	112.4	127.6	108.6	106.9	103.1	104.0	115.0
Total supply . .	do.	120.3	134.7	142.8	149.6	147.7	139.7	135.7
Utilization								
Domestic . . . . .	do.	40.3	41.8	43.5	44.0	45.0	46.0	47.0
Exports . . . . .	do.	69.5	58.7	56.6	61.0	67.0	73.0	77.0
Total . . . . .	do.	109.8	100.5	100.1	105.0	112.0	119.0	121.0
Ending stocks . .	do.	7.1	34.7	42.7	44.6	35.7	20.7	11.7
Prices received . .	Dol.	11.20	7.93	7.00	7.00	7.25	8.25	8.75

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